

Fiscal Note

BILL # HB 2252

TITLE: ~~inmates; documentation; workforce reentry~~ S/E
subject: TPT; exemption; motor vehicle manufacturers

SPONSOR: Wilmeth

STATUS: As Amended by Senate COM

PREPARED BY: Jordan Johnston

Description

Under current law, motor vehicle sales to Arizona non-residents are exempt from Transaction Privilege Tax (TPT) if the dealer delivers the vehicle out of state ("ship-outs"). The bill would expand the exemption to a non-resident who purchases a vehicle here from a motor vehicle dealer and drives it home after obtaining a 10-day registration permit ("drive-outs"). The bill limits these permits to 500 per motor vehicle dealer in FY 2024 and further adjusts the cap upward by 10% in each succeeding year.

Estimated Impact

We estimate the bill could result in an approximate General Fund revenue loss of \$(1.2) million in FY 2024 due to non-resident drive-outs being exempt from TPT for the first time. Based on Arizona Department of Transportation (ADOT) data, non-residents purchase 60,000 vehicles each year. ADOT, however, does not track the currently non-taxable ship-outs versus the taxable drive-outs. We estimate that 1% to 2% of the non-resident sales are drive-outs, which would become tax-exempt under the bill.

Analysis

Under A.R.S. 42-5061A14, motor vehicles sales to Arizona non-residents are exempt from TPT if the dealer delivers the motor vehicle out of the state. This deduction applies to both state and local TPT.

Under this bill, non-residents would be exempt from Arizona TPT if they purchase directly from a motor vehicle dealer and drive the vehicle home with the 10-day permit (and presumably pay their home state's sales tax when they register there). However, the non-resident purchaser will still have to pay the Arizona municipal TPT rate if the municipality decides not to exempt itself from the TPT rate, as permitted by the bill.

The impact from drive-out purchases from Arizona dealerships could result in an approximate current General Fund revenue loss of \$(1.2) million in FY 2024. Since ADOT did not have data on how many of the 60,000 non-resident purchases were drive-outs, we informally surveyed 5 motor vehicle dealerships for that information. As a result, we estimate that 1% to 2% of the 60,000 are drive-outs, or approximately 600 to 1,200 vehicles annually. We further assume that vehicles are sold at an average price of \$35,000 per vehicle. Also, we assume a TPT rate of 4%, as some of the non-residents will be from states with a lower TPT rate than Arizona. If a state has a reciprocal agreement with Arizona, their residents can purchase a vehicle here and pay their state rate. (The \$1.2 million estimate is derived from the midpoint of the following 2 calculations: 600 vehicles x \$35,000 x 4% = \$840,000 and 1,200 vehicles x \$35,000 x 4% = \$1.68 million).

Bill proponents have also suggested that out-of-state visitors would generate TPT collections during their visit on expenses such as lodging and restaurants that would help offset the loss of TPT from vehicle sales. In evaluating the magnitude of this dynamic impact, we compared the TPT loss from the vehicle purchase to the TPT gain from lodging and other factors. The average vehicle would generate \$1,400 in TPT collections (\$35,000 x 4% assuming some reciprocal

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transactions = \$1,400). The visitor would have to spend \$28,000 on lodging, restaurant, and other retail sales to totally offset the \$1,400 loss of the TPT on the vehicle, which seems highly unlikely ($\$28,000 \times 5\%$ for the standard Arizona TPT = \$1,400).

Local Government Impact

The bill may have an impact on municipal TPT collections if municipalities decide to opt into the 10-day registration TPT exemption. We are unable to predict which municipalities will make that choice.

5/16/23